BLACKWOOD HODGE (CANADA) LIMITED
ANNUAL REPORT 1978

DIRECTORS & OFFICERS

BLACKWOOD HODGE (CANADA) LIMITED

DIRECTORS	W.A. Shapland F.J. King R. Thacker C.L. Ferguson J.G. Torrance, Q.C.
BANKERS	Canadian Imperial Bank of Commerce
SOLICITORS	Smith, Lyons, Torrance, Stevenson & Mayer
AUDITORS	Deloitte Haskins & Sells
TRANSFER AGENT	National Trust Company Limited

OFFICERS

Chairman	W.A. Shapland
President	F.J. King
Executive Vice President	R. Thacker
Vice President Finance & Administration	F.G. Mundy
Secretary	N.E. Warry

BLACKWOOD HODGE EQUIPMENT LIMITED

ONTARIO DIVISION

Vice President - General Manager	G.F. Lambert
Vice President - Manager Southern Operations	V.T. Ward
Vice President - Manager Northern Operations	F.J. Castron

ATLANTIC DIVISION

Vice President - General Manager	D.G. Roberts

WESTERN DIVISION

Vice President - General Manager	D.E. Jenkins

TOBIN TRACTOR DIVISION

Vice President - General Manager	G.K. Robson
Vice President - Controller	L.L. Goddard

SUNTRACT RENTALS DIVISION

Vice President - General Manager	T.H. Hamilton

LES ÉQUIPEMENTS BLACKWOOD HODGE QUÉBEC LTÉE.

Vice President - General Manager	C.H. Holcomb
Vice President - Parts & Service	W. Hachey

SUNTRACT MANUFACTURING CO. LIMITED

President	R.B. Deschamps
Vice President - Marketing	J.A. Smith

REPORT TO SHAREHOLDERS

We are pleased to report consolidated net earnings in 1978 of $2,762,000 which is an improvement of $2,425,000 compared with the preceding year. The figures include with effect from July 1978 the earnings of Tobin Tractor (1957) Ltd., which operates in Saskatchewan. This was a factor contributing to the improvement in earnings.

Sales and Rentals in total amounted to $111,275,000, an increase of $3,073,000 or 2.84 per cent. The total of sales and rentals was about 8 per cent below our budgeted forecast for the year but in all the circumstances we do not regard this as unreasonable. The year 1978 was adversely affected by strikes and cutbacks in the mining industry and in all of our markets we had to meet a very competitive situation which necessarily affected the level of our turnover and also our gross trading margins. Sales of New and Used Equipment showed little change but Rental Income and Parts and Service volume were up about 6 per cent.

Notwithstanding the market position referred to above we were able to achieve a small improvement in our overall gross margins but this was not as great as we had hoped.

Operating Expenses continued to be under pressure as a result of inflation and the depreciation of the Canadian dollar but we have continued to exercise a very strict control on all overhead expenses with the result that the net increase in total was relatively small.

At 31st December 1978 Inventories and Accounts Receivable showed an increase of $11,736,000 over the preceding year. These movements were in the main related to the new business acquired in Saskatchewan. In spite of higher market rates for interest and a higher average level of borrowing in 1978, interest expense at $6,546,000 increased by only $251,000 because a restructuring of our borrowing position enabled us to use relatively cheaper finance. This restructuring increased long term indebtedness by $13,666,000 and reduced short term borrowing by $8,984,000 and was the main reason why our working capital was increased during the year from $7,028,000 to $22,972,000.

The provision for Income Taxes, $1,449,000, was based on the results achieved in 1978 by each of eleven operating subsidiary companies. During the year advantage was taken of recent legal changes which have enabled us to consolidate many of these companies into one operation so that with effect from 1st January 1979 there should be savings under this heading.

At $2,762,000 the consolidated net earnings for 1978 were in the opinion of your Directors satisfactory having regard to the market conditions experienced in that year. Our thanks for the achievement of this result are due to our first class management team and the many dedicated employees supporting it.

At 31st December 1978 the financial position of the Company was good with net shareholders' equity increased by $2,762,000 to $27,123,000 equivalent to $11.26 per share.

Although there must be some doubts regarding the economic prospects for 1979 we believe that the year should show a further growth in our business and its profitability. Because money may be in short supply and is in any event likely to be costly we have decided that we must conserve our resources and it is for this reason that your Directors are unanimously agreed that notwithstanding the improved profit for 1978 no dividend should be paid. The position will however be reviewed from time to time so that dividend payments can be reinstated as soon as possible.

Mr. A.R. Barker, an Executive Director of Blackwood Hodge Limited of London, England, who has been a Director of our Company since October 1976 resigned from the Board on 26th February 1979 in order to free himself for other responsibilities with the Parent Company. In his place Mr. C.L. Ferguson, Group Managing Director of Blackwood Hodge Limited, was appointed a Director of the Company effective 26th February 1979.

By Order of the Board

W.A. Shapland

W.A. Shapland, Chairman

F.J. King

F.J. King, President

Toronto, March 19th., 1979

BLACKWOOD HODGE (CANADA) LIMITED

CONSOLIDATED BALANCE SHEET as at December 31, 1978

(Incorporated under The Canada Corporations Act)

ASSETS

($000)

	1978	1977
Current Assets:		
Cash	**$ 50**	$ 85
Instalment receivables	**2,882**	3,054
Accounts receivable	**25,339**	21,772
Due from affiliated companies	**193**	152
Income taxes recoverable	**599**	1,224
Inventories:		
Equipment	**38,908**	30,972
Parts and supplies	**17,946**	17,713
Total current assets	**85,917**	74,972
Instalment receivables - due after one year	**3,146**	2,635
Investments - at cost (no quoted market value)	**1,350**	1,350
Property, plant and equipment (Note 4)	**23,306**	23,304
Total	**$113,719**	$102,261

Approved by the Board of Directors:
F.J. King, Director
J.G. Torrance, Q.C., Director

LIABILITIES & SHAREHOLDERS' EQUITY

	($000) 1978	1977
Current Liabilities:		
Bank indebtedness (Note 5)	**$ 22,951**	$ 28,225
Notes payable (Note 6)	**23,485**	27,195
Accounts payable and accrued charges	**9,348**	8,405
Income and other taxes	**1,370**	544
Due to affiliated companies	**683**	428
Deferred income taxes	**5,108**	3,147
Total current liabilities	**62,945**	67,944
Notes payable - due after one year	**6,395**	3,373
Long-term debt (Note 7)	**15,641**	4,997
Deferred income taxes	**1,615**	1,586
Total liabilities	**86,596**	77,900
Shareholders' equity:		
Share capital (Note 8)	**5,544**	5,544
Appraisal surplus (Note 4)	**6,559**	6,559
Retained earnings	**15,020**	12,258
Total shareholders' equity	**27,123**	24,361
Total	**$113,719**	$102,261

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

for the year ended December 31, 1978

	($000)	
EARNINGS FOR THE YEAR	**1978**	1977
Sales and rentals	**$111,275**	$108,202
Costs and expenses	**101,235**	102,351
Earnings from operations	**10,040**	5,851
Interest earned	**717**	913
Earnings before interest charges	**10,757**	6,764
Interest charges - current debt	**5,426**	5,746
- long term debt	**1,120**	549
Total interest charges	**6,546**	6,295
Earnings before income taxes	**4,211**	469
Provision for income taxes	**1,449**	132
Net earnings for the year	**$ 2,762**	$ 337
Earnings per Share (Note 9)	**$ 1.15**	$ .14
RETAINED EARNINGS		
Balance at begining of year	**$ 12,258**	$ 11,921
Net earnings for the year	**2,762**	337
Balance at end of year	**$ 15,020**	$ 12,258

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended December 31, 1978

	($000)	
SOURCE OF WORKING CAPITAL	**1978**	1977
Net earnings for the year	**$ 2,762**	$ 337
Add back items not involving funds:		
Depreciation	**1,868**	2,259
Deferred income taxes	**29**	(1,486)
Working capital from operations	**4,659**	1,110
Sales of rental equipment	**3,594**	2,997
Increase in notes payable	**2,769**	—
Increase long-term debt	**10,644**	—
Issue of shares	**—**	4
Decrease in instalment receivables	**—**	1,067
	21,666	5,178
USE OF WORKING CAPITAL		
Property, plant and equipment	**5,008**	3,698
Increase in instalment receivables	**511**	—
Acquisition of subsidiary, less working capital acquired	**203**	—
Decrease in notes payable	**—**	2,216
Decrease in long-term debt	**—**	776
	5,722	6,690
Increase (Decrease) in working capital	**15,944**	(1,512)
Working capital at beginning of year	**7,028**	8,540
Working capital at end of year	**$22,972**	$7,028

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS December 31, 1978

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. The following companies are subsidiaries:

Blackwood Hodge Equipment Limited
Les Équipements Blackwood Hodge Québec Ltée.
Suntract Manufacturing Co. Limited

During the year, the Company went through a major corporate reorganization consolidating its eleven operating subsidiaries into the three noted above.

Foreign currency translation

Transactions in foreign currencies have been translated into Canadian dollars at rates prevailing at the time of the transactions, except that current assets and liabilities have been translated at the quoted rates of exchange at the end of the year.

Instalment receivables

The profit on sales which are financed by instalment sales contracts is recognized at the time of the sale and the interest earned is recognized over the term of the contract.

Valuation of inventory

Equipment for resale, parts and supplies are recorded at the lower of cost and net realizable value. Rental equipment is recorded at the lower of cost (including repairs and interest), reduced by a provision for decline in value over the terms of the respective rental agreements, and net realizable value.

Cost is on a specific item basis for equipment and on a first-in first-out basis for parts and supplies.

Property, plant and equipment

Depreciation is provided on the straight-line basis at the following annual rates:

Buildings	2½%
Equipment	10% - 20%
Rental Fleet	14% - 25%

It is Group policy to have land and buildings appraised periodically on the going-concern basis and to record the resulting values at that time by eliminating accumulated depreciation and adjusting the asset accounts to appraisal value.

Income taxes

The companies claim capital cost allowance for income tax purposes on rental equipment included in inventories. The excess of capital cost allowance claimed over depreciation provided in the accounts on such equipment results in a deferral of income tax which is included in current liabilities.

The non-current portion of deferred income taxes arises principally from claiming capital cost allowance for tax purposes in excess of depreciation recorded for plant, equipment and the rental fleet.

Pensions

Pension costs for current service are charged to earnings on a current basis. Past service costs relating to a change in benefits in 1978 are being charged to earnings over a period of fifteen years.

2. ACQUISITION

The Company acquired for a cash consideration of $1,800,000 on July 12, 1978 all the outstanding share capital of Tobin Tractor (1957) Ltd. (Tobin). An amount of $1,000,000 was paid in cash on July 12, 1978 and the balanced of $800,000 is payable as to $400,000 on January 1, 1979 and 1980 and bears interest at the bank prime rate. The results of operations have been included in the consolidated statements since the date of puchase. Tobin's activities include the rental, sale and service of heavy equipment to the mining and construction industries in the Province of Saskatchewan. Details of the acquisition, which has been accounted for by the purchase method, are as follows:

Fixed assets	$ 456,000
Long-term liabilities	253,000
	203,000
Working capital	1,597,000
Net consideration	$1,800,000

The book value of net assets acquired exceeded the consideration by $651,000.

This excess has been attributed to the rental equipment inventory, included in current assets, on an individual machine basis, based on their book value at the date of purchase.

At December 31, 1978, the amount of the excess had been reduced by $84,000 through the sale of certain rental equipment inventory.

3. CHANGE IN APPLICATION OF ACCOUNTING POLICY

To approximate net realizable value for the parts inventory the Company provides depreciation based on the date of the last receipt of each part. This provision had been calculated on a branch by branch basis but, in 1978, as a result of adopting the worldwide Blackwood Hodge policy and computerizing the inventory, this provision was calculated on a company basis thereby decreasing depreciation for 1978 by $713,000, and increasing the net income for the year by $557,000 ($.23 per share).

4. PROPERTY, PLANT & EQUIPMENT

	1978	1977
Land	**$ 4,469,000**	$ 4,186,000
Buildings	**11,277,000**	9,691,000
Equipment	**5,057,000**	4,490,000
Rental Fleet	**13,317,000**	17,013,000
	34,120,000	35,380,000
Less accumulated depreciation	**10,814,000**	12,076,000
	$23,306,000	$23,304,000

The companies' land and buildings are recorded at their going-concern value, based upon appraisals made by Bosley Farr Associates Ltd. as of December 31, 1977, with subsequent additions at cost. The excess of appraisal value over depreciated value is included in shareholders' equity.

The equipment and rental fleet are recorded at cost.

5. BANK INDEBTEDNESS

	1978	1977
Current operating loans	**$ 4,679,000**	$11,865,000
Outstanding cheques	**1,772,000**	3,360,000
Bankers acceptances	**14,500,000**	13,000,000
Promissory note	**2,000,000**	—
	$22,951,000	$28,225,000

Current operating loans and bankers acceptance notes are secured by assignments of accounts receivable. Interest on bank loans (12½% at December 31, 1978) is at 1% over the banks' prime rate. Bankers acceptances bear interest at rates ranging from 10½% to 11% and are issued for periods of up to 90 days. The promissory note bears interest at the rate 11½% and is issued for a period of 90 days.

6. NOTES PAYABLE

Trade notes payable are secured by liens on specific items in the equipment inventory and rental fleet or the assignment of security for instalment receivables due from customers. They bear interest at rates ranging from 9¾% to 13½% at December 31, 1978 and are payable within 1 to 54 months.

7. LONG-TERM DEBT

	1978	1977
Term bank loans	**$12,000,000**	$1,500,000
Loans - parent & affiliates	**3,702,000**	3,726,000
Mortgages	**528,000**	616,000
	16,230,000	5,842,000
Less current portion included in current liabilities	**589,000**	845,000
	$15,641,000	$4,997,000

The term bank loans bear interest to a maximum of 2% above the prime bank rate and are repayable as follows:

June 30, 1979 to 1981	$ 500,000 per annum
June 30, 1982 and 1983	750,000 per annum
December 31, 1983 to 1986	2,250,000 per annum

The term bank loan of $9,000,000 obtained in 1978 is also secured by a collateral mortgage on certain of the companies' freehold properties. Interest on these term bank loans is at the rate of 12 ½% and 13½% at December 31, 1978 (1977 - 9¼%).

Current operating loans, bankers acceptances and term bank loans are guaranteed to the extent of $13,000,000 by Blackwood Hodge Limited.

Loans payable to the parent company and affiliated companies are not due within one year and bear interest generally at rates from 8% to 9%.

Mortgages payable are secured by various properties, are repayable within 1 to 9 years, and bear interest at rates from 7% to 10 ½%.

The portions of long-term debt maturing within 5 years are: 1979 - $589,000; 1980 - $580,000; 1981 - $561,000; 1982 - $816,000 1983 - $3,064,000.

8. SHARE CAPITAL

Authorized

3,500,000 Class A convertible common share without par value.

3,500,000 Class B convertible common shares without par value.

Issued and fully paid

2,314,350 Class A Shares (1977 - 2,322,850)
94,800 Class B Shares (1977 - 86,300).

Class A and Class B shares are freely interconvertible at any time into each other on a one for one basis.

During the year, 17,100 shares were converted from Class A to Class B and 8,600 shares were converted from Class B to Class A .

100,000 of the Class A shares are reserved for issuance under the Company's employee stock option plan. Options to purchase 55,750 shares at $3.53 per share were granted in 1974. These options may be exercised on a cumulative basis at 20% per year and expire on November 7, 1979. During 1978, no options were exercised and options cancelled totalled 700 shares. As at December 31, 1978 total options excercised and cancelled from 1974 amounted to 9,150 and 10,300 respectively.

9. EARNINGS PER SHARE

Earnings per share have been calculated on the weighted average number of shares outstanding (1978 - 2,409,150; 1977 - 2,408,750 shares). The potential dilutive effect of the exercise of the stock options referred to in Note 8 is not significant.

10. INCOME TAXES

The Company and its subsidairies are subject to income taxes on an individual, rather than a consolidated basis. Losses carried forward for tax purposes aggregate approximately $3,056,000 which are available for the reduction of future years' taxable incomes. These losses expire as follows:

1981	$ 133,000
1982	2,042,000
1983	881,000
	$3,056,000

The tax provision for the current year has been reduced by approximately $433,000 as a result of the inventory credit available in 1978 as a deduction in arriving at taxable income.

11. REMUNERATION OF DIRECTORS AND OFFICERS

The Company has 5 Directors and their remuneration as Directors amounts to $14,500 (1977 - $14,500). The Company has 5 officers, 3 of whom are also Directors. They received aggregate remuneration as officers of $247,500 (1977 - $241,500). Remuneration of Directors and senior officers, as defined in The Securities Act (Ontario), amounted to $262,000 (1977 - $256,000).

PENSION PLAN

Based on actuarial estimates, past service costs not yet charged to earnings at December 31, 1978 amount to $156,000. These costs are being amortized and funded at a rate of $16,000 per year.

13. COMMITMENTS

Various subsidairies have entered into leases of business premises for periods of up to 5 years. Annual rental costs approximate $512,000.

14. CONTINGENT LIABILITIES

The companies are contingently liable on customers' notes discounted and instalment sales contracts amounting $6,306,000 at December 31, 1978 (1977 - $6,854,000)

15. ANTI-INFLATION LEGISLATION

The companies were subject to the anti-inflation legislation to provide for the restraint of profit margins, prices, dividends and compensation in Canada. The legislation expired at various dates in 1978 and it is management's opinion that the companies have complied with the legislation in all material respects.

16. BRITISH COLUMBIA COMPANIES ACT

The consolidated financial statements of the Company have been prepared in accordance with the Canada Corporations Act and do not necessarily comply with every regulation under Section 198 of the British Columbia Companies Act.

AUDITORS' REPORT

To the Shareholders of
Blackwood Hodge (Canada) Limited:

We have examined the consolidated balance sheet of Blackwood Hodge (Canada) Limited as at December 31, 1978 and the consolidated statements of earnings and retained earnings and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Deloitte Haskins & Sells
Chartered Accountants

Toronto, Ontario
February 23, 1979

FIVE YEAR FINANCIAL REVIEW

($000)	**1978**	1977	1976	1975	1974
Sales and rentals	**$111,275**	$108,202	$ 91,084	$109,753	$87,693
Operating earnings	**$ 10,040**	$ 5,851	$ 4,217	$ 11,378	$ 9,282
Interest earned	**717**	913	1,193	1,263	1,162
Interest expense	**6,546**	6,295	6,997	5,857	5,069
Income taxes (recovery of)	**1,449**	132	(726)	3,363	2,782
Net earnings (loss)	**$ 2,762**	$ 337	$ (861)	$ 3,421	$ 2,593
Cash flow	**$ 4,659**	$ 1,110	$ 2,694	$ 6,449	$ 6,119
Earnings (loss) per share	**1.15**	.14	(.36)	1.42	1.08
Dividends:					
Class A	**—**	—	—	.50	.40
Class B	**—**	—	—	.425	.34
Equity per share	**11.26**	10.11	8.66	9.28	8.36
Shareholders' equity	**27,123**	24,361	20,854	22,298	20,061
Working capital	**22,972**	7,028	8,540	11,286	9,783
Total assets	**$113,719**	$102,261	$107,354	$102,230	$91,342

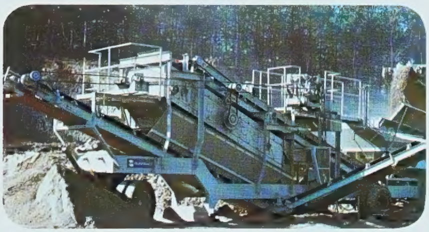
PRODUCTS

Terex-GM

Diesel Division
General Motors of Canada Limited
Earthmoving Equipment
Crawler Tractors
Scrapers
Haulers - Off Highway
Loaders

Cedarapids - El-Jay

Iowa Manufacturing Company
Aggregate Producing, Asphalt
Mixing & Paving Equipment,
Cone Crushers



Suntract

Suntract Manufacturing Co. Limited
Aggregate Producing & Material
Handling Equipment
Portable & Stationary Crushing Plants
Portable Concrete Batch Plants

Drott-Poclain

J.I. Case • Drott Division
Hydraulic Excavators & Shovels

Raygo

Raygo Incorporated
Self-Propelled Vibratory Compactors,
Earth & Landfill Compactors

PRODUCTS (continued)

American Hoist
American Hoist and Derrick Company Limited
Hydraulic Excavators and Shovels, Crawler, Gantry and Mobile Cranes

Case
J.I. Case Construction Equipment Division

Champion
Champion Road Machinery Limited
Motor Graders

CIR
Canadian Ingersoll Rand
Construction Equipment Division
Crawlair Drills and Portable Air Compressors

Eagle
Eagle Iron Works
Specialized Washing, Classifying Equipment

Esco
Esco Limited
Buckets, Teeth and Adapters, Manganese Wear Parts

Hy-Way
Hy-Way Heat Systems Inc.
Asphalt Heating & Pollution Control Equipment

Marion-Dresser
Marion Power Shovel Division
Loading Shovels and Drills for Mining

MWM - Murphy Diesel
Murphy Diesel Company
Air & Water-Cooled Diesels for Industrial & Marine Engines, Generator Sets

Northwest
Northwest Engineering Company
Cable Controlled Excavators, Shovels Draglines and Cranes

Raygo Wagner
Raygo Wagner
Industrial and Forestry Material Handling Equipment

Wagner
Wagner Mining Equipment Company
Underground Mining and Tunneling Vehicles, Scooptrams, Teletrams, LHD, Utility Vehicles

BLACKWOOD HODGE (CANADA) LIMITED

Head Office:
10 Suntract Road, P.O. Box 1004, Station A
Weston, Ontario M9N 3N5
Tel.: (416) 244-2531

BLACKWOOD HODGE EQUIPMENT LIMITED

ONTARIO DIVISION
10 Suntract Road, P.O. Box 1004, Station A
Weston, Ontario M9N 3N5
Tel.: (416) 244-2531
Branches: London, Ottawa, Sudbury, Timmins and Elliot Lake, Ont.

ATLANTIC DIVISION
10 Wright Avenue, P.O. Box 816
Burnside Industrial Park,
Dartmouth, Nova Scotia B3Y 3Z3
Tel.: (902) 463-5010
Branches: Sydney, N.S., Moncton, N.B. and St. John's, Nfld.

WESTERN DIVISION
380 Keewatin Street
Winnipeg, Manitoba R2X 2R9
Tel.: (204) 633-5800
Branch: Thunder Bay, Ont.

TOBIN TRACTOR DIVISION
Highway 6 North, P.O. Box 1427
Regina, Saskatchewan S4P 3C2
Tel.: (306) 543-6355
Branches: Saskatoon and Prince Albert, Sask.

SUNTRACT RENTALS DIVISION

ONTARIO OPERATION
163 Carlingview Drive
Rexdale, Ontario M9W 5E7
Tel.: (416) 675-7521
Branches: Scarborough, Stoney Creek, Ottawa, Kingston, Sudbury, Thunder Bay, London, Waterloo, Guelph, Brantford, Walkerton, Elliot Lake and Timmins, Ont.

ATLANTIC OPERATION
10 Wright Avenue, P.O. Box 810
Burnside Industrial Park
Dartmouth, Nova Scotia B2Y 3Z3
Tel.: (902) 469-9940
Branches: Port Hawkesbury, Sydney and New Minas, N.S.,Moncton and Saint John, N.B. and St. John's, Nfld.

LES ÉQUIPEMENTS BLACKWOOD HODGE QUÉBEC LTÉE.
1945 55th Avenue
Dorval, Quebec H9P 1G9
Tel.: (514) 636-1220
Branches: Ste-Foy, Sept-Iles, Black Lake, Val d'Or, James Bay, Que. and Labrador City, Nfld.

LOCATION SUNTRACT
1945 55th Avenue
Dorval, Quebec H9P 1G9
Tel.: (514) 482-8956
Branches: Ste-Foy, Jonquiere, and Sept-Iles, Que.

SUNTRACT MANUFACTURING CO. LIMITED
3820 Midland Avenue, P.O. Box 292
Agincourt, Ontario M1S 3B9
Tel.: (416) 291-3778
Branch: Pointe-Claire, Que.


TEREX